



Ann Arbor District Library

Ann Arbor, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ann Arbor District Library	County Washtenaw
Audit Date June 30, 2004	Opinion Date September 3, 2004	Date Accountant Report Submitted to State: October 18, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature <i>Rehman Robson</i>		Zip 48605	



Ann Arbor District Library

Table Of Contents

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements for the year ended June 30, 2004:	
Governmental Funds Balance Sheet/Statement of Net Assets	9
Reconciliation of Governmental Fund Balances to Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities – Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	13
Notes to the Financial Statements	14-27
Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Permanent Funds.....	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds	29
Schedule of Operating Revenue and Expenditures – General Fund.....	30
Schedule of Branch Expansion Revenue and Expenditures – General Fund	31
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statement Performed in Accordance With <i>Governmental Auditing Standards</i>	32-33

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 3, 2004

To the Board of Trustees
Ann Arbor District Library
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **ANN ARBOR DISTRICT LIBRARY**, as of and for the year ended June 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor District Library, as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated September 3, 2004, on our consideration of Ann Arbor District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ann Arbor District Library's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rehmann Lohsen

MANAGEMENT'S DISCUSSION and ANALYSIS

Ann Arbor District Library Management's Discussion & Analysis

As management of the Ann Arbor District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year that ended June 30, 2004.

Financial Highlights

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$17,824,862 (net assets). Of this amount, \$7,996,623 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- The Library's total net assets increased by \$3,545,086 during the year.
- As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$8,585,669, an increase of \$971,555 in comparison with the prior year. Approximately 93% or \$8,023,973 is available for spending at the Library's discretion (Unreserved fund balance.)
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$8,023,973 or 62.9% percent of total general fund expenditures.

Overview of Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Library's basic financial statements. To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the Library's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may get a better understanding of the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 11-13 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-27 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$17,824,862 at the close of the most recent fiscal year.

Library's Net Assets

		Governmental Activities 2003-2004
Current and Other Assets	\$	9,278,726
Capital Assets, Net		9,478,356
Total Assets	\$	18,755,082
Current Liabilities Outstanding	\$	691,057
Other Liabilities		239,163
Total Liabilities	\$	930,220
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$	9,478,356
Restricted for endowment		349,883
Unrestricted		7,996,623
Total Net Assets	\$	17,824,862

The Library's net assets increased by \$3,545,086 during the fiscal year. Capital outlay on the Library expansion projects is not an expense in the government-wide financial statements as it is in the fund financial statements. This factor, combined with the effects of spending less in the general fund in several budget categories and the proceeds from the sale of a branch facility of approximately \$ 556,000, comprised most of the elements of this fiscal year increase.

Condensed Statement of Activities:

Revenue

Property taxes	\$ 11,972,718
State aid and penal fine distributions	439,989
Charges for services	55,340
Operating grants and contributions	333,807
Library fines, fees and other	734,333
Interest revenue	<u>135,552</u>

Total revenue	<u>13,671,739</u>
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Expenses

Culture and recreation- current	<u>10,126,653</u>
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Increase in Net Assets	<u>\$ 3,545,086</u>
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Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$8,585,669 an increase of \$971,555 in comparison with the prior year. Approximately 93% of this total amount (\$8 million) constitutes unreserved fund balance, which is available for spending at the Library's discretion. The remainder of fund balance is reserved to indicate that is not available for new spending because the underlying assets are included in inventory and prepaid items or reserved for debt retirement, and is not available for current expenditure.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,023,973 while total fund balance was \$8,235,786. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 63% and 65% of total General Fund expenditures.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor. Revenues exceeded the final amended budget primarily due to the sale of a branch facility, and expenditures were incurred at a lesser amount in nearly all budget categories.

Capital Assets

The Library's investment in capital assets as of June 30, 2004, amounted to \$9,478,356 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment. The total increase in the Library's investment in capital assets for the current fiscal year was 37%.

Major capital asset events during the current fiscal year included the following:

- Approximately \$2,500,000 was invested in our new branches, Malletts Creek and the Oak Valley project, during the year.

Library's Capital Assets (Net of Depreciation)

Land	\$	683,220
Buildings and construction in progress		7,548,566
Vehicles		41,060
Equipment		1,205,510
Total Capital Assets	\$	<u>9,478,356</u>

Additional information on the Library's capital assets can be found on page 21 of this report.

Factors Bearing on the Library's Future

The following factors were considered in preparing the Library's budget for the 2004-2005 fiscal year:

- Increase of the collection budget to reflect the opening of a new building and increased demand for non-print formats.
- Increased the programming budget for outreach and collaborations.
- Planned use of Fund Balance for branch expansion and the purchase of a new automation system.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director, 343 S. Fifth Avenue, Ann Arbor, Michigan 48104.

BASIC FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY
Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2004

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 1,855,495	\$ 349,883	\$ 2,205,378	\$ -	\$ 2,205,378
Investments	6,589,064	-	6,589,064	-	6,589,064
Accounts receivable	319,622	-	319,622	-	319,622
Taxes receivable	9,469	-	9,469	-	9,469
Prepaid expenditures	153,193	-	153,193	-	153,193
Capital assets					
Assets not being depreciated	-	-	-	865,902	865,902
Assets being depreciated	-	-	-	8,612,454	8,612,454
<u>TOTAL ASSETS</u>	<u>\$ 8,926,843</u>	<u>\$ 349,883</u>	<u>\$ 9,276,726</u>	<u>\$ 9,478,356</u>	<u>\$ 18,755,082</u>
Liabilities					
Accounts payable	\$ 398,155	\$ -	\$ 398,155	\$ -	\$ 398,155
Accrued payroll and benefits	292,902	-	292,902	-	292,902
Long-term liabilities					
Due within one year	-	-	-	30,000	30,000
Due after one year	-	-	-	209,163	209,163
Total liabilities	691,057	-	691,057	239,163	930,220
Fund balances/Net assets					
Fund balance - reserved for prepaid items	153,193	-	153,193	(153,193)	-
Fund balance - reserved for encumbrances	58,620	-	58,620	(58,620)	-
Fund balance - reserved for endowment	-	349,883	349,883	(349,883)	-
Fund balance - unreserved	8,023,973	-	8,023,973	(8,023,973)	-
Total fund balances	8,235,786	349,883	8,585,669	(8,585,669)	-
<u>Total Liabilities and Fund balances</u>	<u>\$ 8,926,843</u>	<u>\$ 349,883</u>	<u>\$ 9,276,726</u>		
Net assets:					
Investment in capital assets				9,478,356	9,478,356
Restricted for endowments - nonexpendable				349,883	349,883
Unrestricted				7,996,623	7,996,623
Total net assets				<u>\$ 17,824,862</u>	<u>\$ 17,824,862</u>

The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Reconciliation of Governmental Fund Fund Balances
to Statement of Net Assets
June 30, 2004

Fund balances - total governmental funds \$ 8,585,669

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	13,895,570
Deduct: accumulated depreciation	(4,417,214)

Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(239,163)</u>
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Net assets of governmental activities	<u><u>\$ 17,824,862</u></u>
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balances and Statement of Activities
Governmental Funds
For the Year Ended June 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Activities
Revenue					
Property taxes, net	\$ 11,972,718	\$ -	\$ 11,972,718	\$ -	\$ 11,972,718
State penal fines	304,429	-	304,429	-	304,429
State aid	135,560	-	135,560	-	135,560
Interest income	133,728	1,824	135,552	-	135,552
Copier revenue	33,929	-	33,929	-	33,929
Grants and memorials	333,807	-	333,807	-	333,807
Library fines, fees and other	795,989	-	795,989	(61,656)	734,333
Non-resident fees	21,411	-	21,411	-	21,411
Total revenue	13,731,571	1,824	13,733,395	(61,656)	13,671,739
Expenditures/expenses					
Current:					
Personnel costs	6,582,155	-	6,582,155	(16,134)	6,566,021
Purchased services	643,473	-	643,473	-	643,473
Repairs and maintenance	216,234	-	216,234	(98,024)	118,210
Rent	250,440	-	250,440	-	250,440
Materials, supplies and expense	1,821,598	-	1,821,598	-	1,821,598
Other operating costs	369,379	-	369,379	-	369,379
Depreciation expense	-	-	-	357,532	357,532
Capital outlay/maintenance expense	2,878,561	-	2,878,561	(2,878,561)	-
Total expenditures/expenses	12,761,840	-	12,761,840	(2,635,187)	10,126,653
Net change in fund balances	969,731	1,824	971,555	(971,555)	-
Change in net assets	-	-	-	3,545,086	3,545,086
Fund balance/net assets, beginning of year, as restated	7,266,055	348,059	7,614,114	6,665,662	14,279,776
Fund balance/net assets, end of year	\$ 8,235,786	\$ 349,883	\$ 8,585,669	\$ 9,239,193	\$ 17,824,862

The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 971,555

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	2,976,585
Deduct: depreciation expense	(357,532)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

Proceeds from sale of capital assets	(556,395)
Add: gain from disposition of capital assets	494,739

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in the accrual for compensated absences	16,134
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Change in net assets of governmental activities	<u>\$ 3,545,086</u>
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenue				
Property taxes, net	\$ 11,523,797	\$ 11,523,000	\$ 11,972,718	\$ 449,718
State penal fines	180,000	180,000	304,429	124,429
State aid	120,000	120,000	135,560	15,560
Interest income	275,000	275,000	133,728	(141,272)
Copier revenue	34,000	34,000	33,929	(71)
Grants and memorials	75,000	75,000	333,807	258,807
Library fines, fees and other	230,000	230,000	795,989	565,989
Non-resident fees	25,000	25,000	21,411	(3,589)
Total revenue	12,462,797	12,462,000	13,731,571	1,269,571
Expenditures				
Current:				
Salaries and wages	5,015,000	5,015,000	4,924,488	90,512
Employee benefits	1,395,000	1,395,000	1,285,209	109,791
Employment taxes	384,000	384,000	372,458	11,542
Purchased services:				
Custodial services	148,000	152,000	151,076	924
Professional services	138,800	140,400	145,650	(5,250)
Utilities	223,000	223,000	186,371	36,629
Property insurance	65,000	65,000	58,632	6,368
Communications	124,000	124,000	101,744	22,256
Repairs and maintenance	277,700	268,200	216,234	51,966
Rent	211,000	259,500	250,440	9,060
Materials	1,079,000	1,079,000	1,073,919	5,081
Operating supplies and expense	525,250	792,612	747,679	44,933
Library programming	188,000	193,000	191,632	1,368
Seminars, conferences and travel	82,050	82,050	74,392	7,658
Grant and memorial expenses	7,500	75,000	98,355	(23,355)
Donations	-	5,000	5,000	-
Capital outlay	3,984,700	3,537,238	2,878,561	658,677
Total expenditures	13,848,000	13,790,000	12,761,840	1,028,160
Net change in fund balances	(1,385,203)	(1,328,000)	969,731	2,297,731
Fund balance, beginning of year	7,266,055	7,266,055	7,266,055	-
Fund balance, end of year	\$ 5,880,852	\$ 5,938,055	\$ 8,235,786	\$ 2,297,731

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Ann Arbor District Library (the "Library") is a public entity, which enjoys dual tax status as both a municipality and a 501(c)(3) tax-exempt organization.

Pursuant to Public Act 145 of 1993 (Proposal A), effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Ann Arbor Public Schools (the "Schools") to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy up to 2.0 mills. The Library levied 1.95 mills for the year ending June 30, 2004. Assets and liabilities of the Library were transferred as of July 1, 1996. The Library is governed by an elected Board (the "Library Board") which consists of seven members elected at large from the Library District.

The District Library's borders encompass the City of Ann Arbor (the "City"), and the Townships of Ann Arbor, Lodi, Northfield, Pittsfield, Salem, Scio, Superior, and Webster. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

The Library has implemented the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

B. Library-wide and fund financial statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2004.

Major individual governmental funds are reported as separate columns in the fund financial statements.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental fund:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Library reports the following fund types:

The permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific government programs.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2004.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the Library-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-45
Vehicles	4-12
Equipment	5-20

5. Compensated absences

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy, net of the portion that is estimated to be paid currently. Under the Library's policy, employees earn compensated absence time based on time of service with the Library.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budget for the General Fund is adopted on a fund basis.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year end, the carrying amount of the Library's deposits was \$2,204,178. The bank balance of these deposits was \$2,391,954, of which \$200,000 insured by the Federal Depository Insurance Corporation (FDIC), and the balance of \$2,191,954 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. The bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district

For the purpose of providing an indication of the assumed levels of risk, investments are categorized as follows:

- Category 1 Investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name.
- Category 2 Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name.
- Category 3 Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Library's name.

The Library's investments were categorized as follows:

Category 2	\$ 5,951,371
Uncategorized	<u>637,693</u>
Total	<u>\$ 6,589,064</u>

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 2,205,378
Investments	<u>6,589,064</u>
	<u>\$ 8,794,442</u>

Petty cash	\$ 1,200
Bank deposits (checking and savings accounts)	2,204,178
Investments	<u>6,589,064</u>
	<u>\$ 8,794,442</u>

B. Receivables

Receivables as of year end for the Library's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ 2,080	\$ -	\$ 2,080	\$ -
Intergovernmental	317,542	-	317,542	-
Taxes	<u>9,469</u>	<u>-</u>	<u>9,469</u>	<u>-</u>
	<u>\$ 329,091</u>	<u>\$ -</u>	<u>\$ 329,091</u>	<u>\$ -</u>

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

C. Capital assets

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 683,220	\$ -	\$ -	\$ 683,220
Construction in progress	2,112,881	182,682	2,112,881	182,682
Total capital assets not being depreciated	2,796,101	182,682	2,112,881	865,902
Capital assets being depreciated				
Buildings and improvements	5,887,606	4,385,241	152,637	10,120,210
Vehicles	101,239	43,554	-	144,793
Communications equipment	321,917	67,493	-	389,410
Computer equipment	1,087,011	213,782	78,100	1,222,693
Furniture and equipment	719,579	104,884	-	824,463
Other equipment	236,269	91,830	-	328,099
Total capital assets being depreciated	8,353,621	4,906,784	230,737	13,029,668
Less accumulated depreciation for:				
Buildings and improvements	2,699,572	146,665	91,911	2,754,326
Vehicles	100,000	3,733	-	103,733
Communications equipment	170,777	40,846	-	211,623
Computer equipment	841,810	100,507	77,170	865,147
Furniture and equipment	258,390	38,229	-	296,619
Other equipment	158,214	27,552	-	185,766
Total accumulated depreciation	4,228,763	357,532	169,081	4,417,214
Total capital assets being depreciated, net	4,124,858	4,549,252	61,656	8,612,454
Governmental activities capital assets, net	\$ 6,920,959	\$ 4,731,934	\$ 2,174,537	\$ 9,478,356

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the Library's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 398,155	\$ -	\$ 398,155
Accrued payroll and benefits	<u>292,902</u>	<u>-</u>	<u>292,902</u>
	<u>\$ 691,057</u>	<u>\$ -</u>	<u>\$ 691,057</u>

E. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended June 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due in One Year</u>
Sick and vacation leave pay	<u>\$ 255,297</u>	<u>\$ -</u>	<u>\$ 16,134</u>	<u>\$239,163</u>	<u>\$ 30,000</u>

F. Leases

The Library leases equipment under operating leases. The future minimum lease payments under non-cancelable leases at June 30 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$ 38,864
2006	29,189
2007	15,130
2008	<u>6,629</u>
Total future expenditures	<u>\$ 89,812</u>

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

The Library rents building space for two of the branches under operating leases. The rental payment includes taxes and shared building expenses. The minimum future rental payments at June 30 are summarized as follows:

Year ended June 30,	<u>Amount</u>
2005	\$ 154,069
2006	<u>42,775</u>
Total future rentals (including estimated taxes and shared building expenses)	<u>\$ 196,844</u>

Total rental expense under the above leases for the year ended June 30, 2004 was \$250,440.

G. Transfers of assets and assumption of liabilities and contractual obligations

Effective July 1, 1996, the Schools transferred all of the assets (the "Premises") of its library fund to the Library subject to all the liabilities and contractual obligations, including contingent liabilities, of or incurred by the former library.

At the time of the separation of the Library from the Schools under the District Library Agreement ("DLA"), the Library, the Schools and the City executed an Employee Transfer Agreement which outlined many of the provisions governing the formation of the District Library and the terms and conditions of employment relations during the transition period. The Employee Transfer Agreement provides that the Library shall continue to make retirement contributions to MPSERS for Former School Library Employees ("FSLE"), that is, those employed prior to July 1, 1996. As provided in the Agreement, the Library has continued to make contributions to MPSERS on behalf of FSLE with the exception of certain identified hourly employees. The Library has also adopted a 403(b) defined contribution plan which allows for participation by certain designated employees who are not part of the FSLE group.

Per a lease agreement entered into on December 12, 1995 between the Schools and the Library, the Library is required to pay \$1 per annum to the Schools for the rental of the Main Library building. The Library is responsible for all operating costs of the premises. The lease has been accounted for as a capital lease with \$5,554,817 reflected in the capital assets recorded on the statement of net assets (Note III.C.).

Upon expiration of the lease on June 30, 2005, the Schools are obligated to transfer to the Library all rights, title, interest, and improvements then comprising the Main Library. Furthermore, upon the occurrence of certain events, the Schools are entitled to an exclusive option to reacquire the Main Library and certain non-exclusive perpetual rights to use limited portions of the Main Library.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Pension plans

Defined Benefit Pension Plan

Library employees hired prior to July 1, 1996 are eligible to participate in the Michigan Public School Employees Retirement System (MPERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows:

Plan Description

MPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 12.99% of annual covered payroll. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the years ended June 30, 2004, 2003 and 2002 were \$239,609, \$319,243 and \$232,889, respectively, equal to the required contributions for each year.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

Defined Contribution Plan

Employees hired subsequently to July 1, 1996 are not eligible to participate in the MPSERS as the Library is no longer operated by the Schools. However, some employees are eligible to participate in the Library's 403(b) retirement savings plan (the "Plan"), a defined contribution plan which consists of a tax deferred annuity. Employees are eligible to participate in the Plan as of their start date of employment. The Plan, called the Ann Arbor Library 403(b) Tax Sheltered Annuity Plan, is administered by the District Library and has been reviewed and approved by the Internal Revenue Service. Plan provisions and contribution requirements are established and may be amended by the Library Board of Directors.

The Library contributes 10% of the eligible salaried employees' base pay. There are no employee matching requirements, however, employees can contribute a maximum of 10% of their base pay per year into any one of six mutual funds with variable degrees of risk. Both employee and employer contributions are portable, thus in the event an employee terminates employment with the Library, the Plan benefits travel with the employee. Upon retirement, an eligible employee receives the tax-deferred contributions plus interest earnings on the contributions. The employer and employee contribution requirements for the Plan year ended June 30, 2004, was \$249,596 and \$344,435, respectively.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

B. Risk management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property casualty, health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

C. Commitments

At June 30, 2004, the Library had commitments in the amount of approximately \$102,000 for future capital expenses in connection with the Mallet's Creek Branch Expansion project.

D. Restatements

As of and for the year ended June 30, 2004, the Library implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Library is required to implement the new requirements for the fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balance of general fund as of 06/30/2003	\$ 7,614,114
Add: Governmental capital assets, including land, buildings and equipment as of 06/30/2003	11,149,722
Deduct: Accumulated depreciation as of 06/30/2003 on above governmental capital assets	(4,228,763)
Deduct: Compensated absences as of 06/30/2003	<u>(255,297)</u>
Governmental net assets, restated, as of 07/01/2003	<u>\$14,279,776</u>

* * * * *

COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES

ANN ARBOR DISTRICT LIBRARY
Nonmajor Permanent Funds
Combining Balance Sheet
June 30, 2004

	<u>Holtrey Endowment</u>	<u>Keniston Endowment</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 319,538	\$ 30,345	<u>\$ 349,883</u>
 Fund Balances:			
Reserved for :			
Endowment principal - Holtrey	\$ 319,538	\$ -	\$ 319,538
Endowment principal - Keniston	<u>-</u>	<u>30,345</u>	<u>30,345</u>
 Total fund balances	<u>\$ 319,538</u>	<u>\$ 30,345</u>	<u>\$ 349,883</u>

ANN ARBOR DISTRICT LIBRARY
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2004

	<u>Holtrey Endowment</u>	<u>Keniston Endowment</u>	<u>Totals</u>
Revenues:			
Investment income	\$ 1,666	\$ 158	\$ 1,824
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,666	158	1,824
Fund Balances - Beginning of Year	<u>317,872</u>	<u>30,187</u>	<u>348,059</u>
Fund Balances - End of Year	<u><u>\$ 319,538</u></u>	<u><u>\$ 30,345</u></u>	<u><u>\$ 349,883</u></u>

ANN ARBOR DISTRICT LIBRARY
Schedule of Operating Revenue and Expenditures - General Fund
For the Year Ended June 30, 2004

Revenue

Property taxes, net	\$ 9,819,333
State penal fines	304,429
State aid	135,560
Interest income	133,728
Copier revenue	33,929
Grants and memorials	152,065
Library fines, fees and other	795,989
Non-resident fees	21,411

Total revenue	<u>11,396,444</u>
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Expenditures

Current:

Salaries and wages	4,924,488
Employee benefits	1,285,209
Employment taxes	372,458
Purchased services:	
Custodial services	151,076
Professional services	144,076
Utilities	186,371
Property insurance	58,632
Communications	101,744
Repairs and maintenance	216,234
Rent	250,440
Materials	1,073,919
Operating supplies and expense	373,122
Library programming	191,632
Seminars, conferences and travel	74,392
Grant and memorial expenses	93,228
Donations	5,000
Capital outlay	274,564

Total expenditures	<u>9,776,585</u>
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Revenue over expenditures	<u><u>\$ 1,619,859</u></u>
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ANN ARBOR DISTRICT LIBRARY
Schedule of Branch Expansion Revenue and Expenditures - General Fund
For the Year Ended June 30, 2004

Revenue

Property taxes, net	\$ 2,153,385
Grants/Memorials	181,742
	<u>2,335,127</u>

Expenditures

Purchased services	1,574
Supplies	374,557
Other operating expenses	5,127
Capital outlay	<u>2,603,997</u>
Total expenditures	<u>2,985,255</u>

Revenue under expenditures	<u><u>\$ (650,128)</u></u>
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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 3, 2004

The Library Board
Ann Arbor District Library
Ann Arbor, Michigan

We have audited the financial statements of the **ANN ARBOR DISTRICT LIBRARY** as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ann Arbor District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ann Arbor District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohorn



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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September 3, 2004

To the Board of Trustees
Ann Arbor District Library
Ann Arbor, Michigan

We have audited the financial statements of *Ann Arbor District Library* as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Ann Arbor District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. As part of obtaining reasonable assurance about whether Ann Arbor District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Ann Arbor District Library's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ann Arbor District Library are described in Note 1 to the financial statements.

As described in Note IV-E to the basic financial statements, in 2004 Ann Arbor District Library changed accounting policies related to the new financial reporting requirements for all state and local governments, by adopting Statements of Governmental Accounting Standards (GASB Statements) No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis– for State and Local Governments*, No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38 – *Certain Financial Statement Note Disclosures*. The cumulative effect of implementing these new standards resulted in a substantial restatement of beginning net assets/fund balances.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management’s estimate of the useful lives of depreciable capital assets in the Governmental Activities is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by Ann Arbor District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Library’s financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Ann Arbor District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended solely for the information and use of management, the Board of Trustees, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Associate Director of Finance and his staff for the courtesy extended to us during the conduct of our audit.

Very truly yours,

A handwritten signature in cursive script, reading "Lehmann Johnson".

ANN ARBOR DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2004

During our audit, we became aware certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding these matters. A separate report dated September 3, 2004 contains our report on the Library's internal control structure. This memorandum does not affect our report dated September 3, 2004, on the basic financial statements of Ann Arbor District Library .

Journal Entries

As part of our audit, we examined various journal entries to comply with the new Statement of Auditing Standards (SAS) 99 requirements which is effective for the Library's year ended June 30, 2004. We noted that journal entries prepared by the Associate Director are not initialed or signed by someone other than the preparer as a check for journal entry completeness and accuracy. In order to enhance internal controls in this area, we recommend that all journal entries be initialed by an appropriate person to "complete the circuit" for effective internal controls in this area.

Capital Assets

The Library had an appraisal firm inventory and assign cost amounts to Library capital assets during the year ended June 30, 2004. This provides a complete report of building and equipment cost and related accumulated depreciation as of June 30, 2004. Certain items of equipment, particularly computer equipment, are moved from one location to another because of various reasons. We recommend that an inventory of equipment items be performed internally periodically (every 2 or 3 years) in order to provide assurance that the equipment is still in place and to ensure the integrity of the capital asset record system.

The following item addresses a new change for the year ended June 30, 2004, which has affected financial reporting. This memorandum does not affect our report dated September 3, 2004 on the financial statements of Ann Arbor District Library.

GASB 34 Implementation

The basic financial statements for the year ended June 30, 2004 conform to the new reporting requirement under Governmental Accounting Standards Board Statement #34, which was an overwhelming overhaul in the way governmental basic financial statements are presented. For the Library, similar to other first-time implementers, this implementation process was an important process, which took a significant amount of time of the staffs of the Business Office and our independent audit firm to reconfigure the funds and schedules to conform to the new government-wide format, including the presentation of capital assets net of accumulated depreciation.

ANN ARBOR DISTRICT LIBRARY

COMMENTS AND RECOMMENDATIONS (Concluded)

For the Year Ended June 30, 2004

The new reporting format reflects the District on a government-wide basis for the *governmental activities*. The basic financial statements on a government-wide basis reflect positive net assets of approximately \$17,825,000. The unrestricted portion of these net assets approximates \$7,997,000. Also, as pointed out in the MD&A section of the report, the financial statements reflect a summary of the Statement of Activities for the year ending June 30, 2004. We believe these statements will have more meaning when the user can compare the activity results with more than one year (a trend analysis) as we go into the future with this new format for financial reporting.

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